

HOUSE BILL REPORT

HB 1240

As Reported by House Committee On:

Local Government
Finance

Title: An act relating to real estate excise tax fees and electronic processing of affidavits.

Brief Description: Funding the development of an automated system to process real estate excise taxes.

Sponsors: Representatives Kessler and DeBolt.

Brief History:

Committee Activity:

Local Government: 2/3/05, 2/14/05 [DPS];

Finance: 3/1/05, 4/15/05 [DP2S(w/o sub LG)].

Brief Summary of Second Substitute Bill

- Authorizes the creation of "real estate excise tax technology" (REET) accounts to be administered by the State Treasurer and county treasurers for the purpose of providing funding for the development and maintenance of an electronic processing and reporting system for real estate excise tax affidavits.
- Allows a county treasurer to collect an additional \$10 fee for the collection of certain real estate excise taxes, out of which \$5 must be deposited in a local "real estate excise tax electronic technology account" and another \$5 remitted to the State Treasurer for deposit in a similar statewide account.
- Eliminates the legal requirement that in the event of a dispute over a transfer of property involving the filing of a real estate excise tax affidavit, the person delivering the documents to the county treasurer is responsible for producing the original signature of the grantor and grantee.
- Increased the portion of REET placed in the county current expense fund from 1 percent to 1.3 percent.
- Requires county to pay state REET to state treasurer by last business day of month.
- Appropriates \$3.9 million for grants to counties to assist with REET technology.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 4 members: Representatives Simpson, Chair; Clibborn, Vice Chair; B. Sullivan and Takko.

Minority Report: Do not pass. Signed by 3 members: Representatives Schindler, Ranking Minority Member; Ahern, Assistant Ranking Minority Member; and Woods.

Staff: Thamas Osborn (786-7129).

Background:

The state imposes an excise tax of 1.28 percent on each sale of real property. The tax is usually collected by the treasurer of the county within which the property is located, or in some circumstances by the Department of Revenue. Both the buyer and the seller are required to sign a real estate excise tax (REET) affidavit when a taxable transaction occurs. The affidavit must contain the names and addresses of the buyer and seller, a legal description of the property, a parcel number, and the property selling price.

A fee of \$2 is collected by the county treasurer on all state-imposed REET transactions. The fee is used to defray costs associated with collecting the REET and processing REET affidavits.

Summary of Substitute Bill:

The fee a county treasurer collects on state-imposed REET transactions is changed to \$10. Of the \$10 fee, \$5 must be deposited in the county treasurer's REET electronic technology account. The remaining \$5 must be remitted to the State Treasurer for deposit in a newly created, statewide REET technology account. An appropriation is not required for expenditure from the REET technology account.

The State Treasurer must distribute the moneys in the state account to county treasurers each month. Three-quarters of the money must be equally distributed among all counties, and the rest must be distributed to each county on a pro rata basis based on a county's population.

The money received by the county treasurer must be used exclusively for the development and implementation of an electronic processing and reporting system for REET affidavits. The two \$5 technology fees going into the local and state REET technology accounts expire as of June 30, 2010. Any money remaining in the account on July 1, 2015, reverts to the county capital improvements fund.

Substitute Bill Compared to Original Bill:

The amendment has the following effects on the original bill:

- deletes a provision requiring that in the event of a dispute over a transfer of property involving the filing of a real estate excise tax affidavit, the person delivering the documents to the county treasurer is responsible for producing the original signature of the grantor and grantee;
- changes the state treasurer's fund distribution formula for the real estate excise tax electronic technology account so as to require that "three-quarters" of such funds are equally distributed among the 39 counties. The original bill requires that "one-half" of the funds be so distributed;
- adds a provision stating that the two \$5 technology fees going into the local and state REET technology accounts expire as of June 30, 2010; and
- changes the effective date of the act from August 1, 2005 to July 1, 2005.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: This bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: This is a bipartisan bill that is proposed by the Association of County Treasurers. The bill proposes fee increases for REET transactions that are large, but are necessary in order to defray the substantial costs incurred by counties in processing tax transactions. More importantly, the bulk of the fee increase will go to a fund for the creation of an automated system for the processing of tax information that will enable counties to better cope with the enormous amount of data that must be processed. This system will be able to interface with the automated system used by the Department of Revenue. An automated system will be more efficient, since it will be much faster than the current system and will greatly decrease the amount of paperwork. Also, an automated system will eliminate many redundancies and will therefore streamline the current system for processing tax information. Both the public and private sectors will see cost savings. Some amendments will be introduced regarding the expiration date for the fee and regarding signature requirements on REET affidavits.

(With concerns) There should be no fee increases with respect to the processing of REET transactions. However, it would be a very good idea to implement the automated system proposed in the bill. The bill suggests some unanswered questions: (1) How much would an automated system actually cost?; and (2) Will the smaller counties actually be able to raise enough money to create such a system? Changes should be made to the bill, including an early expiration date, provisions for reviewing the program, and changes in the way the proceeds from the account are distributed to small counties.

Persons Testifying: (In support) Representative Kessler, prime sponsor; Lisa Frazier and Rose Bowman, Washington State Association of County Treasurers; Doug Lasher, Clark County Treasurer; and Dave Cook, Yakima County Assessor.

(With concerns) Bryan Wahl, Washington Association of Realtors.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Local Government. Signed by 5 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Hasegawa and Santos.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern and Ericksen.

Staff: Rick Peterson (786-7150).

Background:

The county treasurer remits collections of state REET monies by the 20th of the month following collection. The county places 1 percent of the state REET monies into the county current expense fund to pay for collection of the tax.

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Local Government:

The portion of state REET placed in the county current expense fund is increased from 1 percent to 1.3 percent. Starting July 1, 2006, the county treasurer must pay state REET to the State Treasurer by the last business day of the month, including revenue received through the 2nd preceding day. The sum of \$3.9 million is appropriated from the General Fund to the REET grant account to be used for grants to counties to assist with REET technology. On July 1, 2010, money remaining in the grant account is transferred to the State General Fund.

Appropriation: The sum of \$3.9 million for fiscal year 2006.

Fiscal Note: Requested on April 15, 2005.

Effective Date of Second Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: This is important to county treasurers. It will allow the creation of an online reporting system for the real estate excise tax. Filling out the current forms at the front counter is time consuming. This will improve customer service. It will allow the attorneys and title companies to file real estate forms online. This will allow the county treasurer, assessor and auditor to share information electronically. The distribution formula means that

small counties will be able to implement the new system. The \$2 fee has been at \$2 for 12 or more years. The bill is a plus for the general fund. The ongoing revenue sharing is not sufficient. The county treasurers are making a reasonable request

Testimony Against: None.

Persons Testifying: Representative Kessler, prime sponsor; Judi Mores, Washington State Association of County Treasurers (WSACT), Jefferson County; Ken Stabbing, WSACT, Grays Harbor County; Doug Lasher, Clark County Treasurer; and Rose Bowman, WSACT, Lewis County.

Persons Signed In To Testify But Not Testifying: None.